

A sound internal financial reporting system based on compliance with financial rules is one of the attributes of good governance. This chapter provides an overview and status of compliance of the departments of the State Government with various financial rules, procedures and directives during the current year.

3.1 Non-submission of utilization certificates

Financial rules provide that for the grants provided for specific purposes, utilization certificates (UCs) should be obtained by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General within 18 months from the date of their sanction unless specified otherwise. However, 2,814 UCs aggregating to ₹ 1,646.47 crore in respect of grants paid upto 2010-11, were in arrears as detailed in **Appendix 3.1**.

The age-wise arrears of UCs is summarised in **Table 3.1**.

Table 3.1: Age-wise arrears of utilization certificates

Sl. No.	Range of delay in No. of years	Total Grants released		Utilisation Certificates in arrears	
		No.	Amount	No.	Amount
1	9 & above	333	44.88	333	44.88
2	7-9	80	16.94	80	16.94
3	5-7	283	208.77	282	208.52
4	3-5	1,814	729.48	1,806	728.93
5	1-3	141	190.84	127	150.28
6	0-1	186	496.92	186	496.92
Total		2,837	1,687.83	2,814	1,646.47

Source: PAG (A E)

Major cases of non-submission of utilization certificates related to Urban Development Department (37 *per cent*) and Health and Family Welfare Department (27 *per cent*). Non-submission of UCs defeats the very purpose of release of the money to the beneficiary organisation and also gives rise to possibility of misuse / diversions.

3.2 Non-receipt of information pertaining to institutions substantially financed by the Government

To identify the institutions which attract audit under Sections 14 and 15 of the CAG's (Duties, Powers and Conditions of service) Act, 1971, heads of the Government departments are required to furnish to Audit every year information about the institutions to which financial assistance of ₹ 25 lakh or more was given, the purpose for which assistance was granted and the total expenditure of the institutions.

Fourteen departments did not furnish the information pertaining to 305 institutions receiving grants aggregating ₹ 25 lakh or more for the period ranging from two years to more than 10 years, as detailed in **Appendix 3.2**.

In response to the observations of Audit for the year 2009-10, Finance Department issued instructions (April 2011) to all the Secretaries of Administrative departments to furnish the required information to the Accountant General directly. However, there is no significant improvement in the position as 305 institutions have still not furnished the particulars.

3.3 Status of submission of accounts of autonomous bodies and placement of audit reports before the State Legislature

Several autonomous bodies have been set up by the State Government in the field of village and small industries, urban development, etc. The audit of accounts of ten bodies in the State has been entrusted to the CAG. These are audited with regard to their transactions, operational activities and accounts, conducting regulatory/compliance audit, review of internal management and financial control, review of systems and procedures, etc.

Separate audit reports of four autonomous bodies for the year 2009-10 and one autonomous body for the year 2008-09 were yet to be placed before the State Legislature.

The status of entrustment of audit, rendering of accounts, issuing of audit reports and their placement before the State Legislature are indicated in **Appendix 3.3**.

3.4 Departmental commercial undertakings

The departmental undertakings of certain Government departments performing activities of commercial and quasi-commercial nature are required to prepare *pro forma* accounts in the prescribed format annually showing the working results of financial operations so that the Government can assess their working. The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, the investment of the Government remains outside the scrutiny of Audit/State Legislature. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay in all likelihood may also open the system to risk of fraud and leakage of public money.

The heads of departments in the Government are to ensure that the undertakings prepare and submit such accounts to Accountant General for audit within a specified time frame. Out of the eight undertakings which have been closed/transferred/converted into co-operative federation, proforma accounts in respect of two undertakings were due from 1969-70. The position of arrears in preparation of proforma accounts by the undertakings is given in **Appendix 3.4**.

The Finance Department had addressed (June 2010 / April 2011) the Administrative Departments of these undertakings to finalise the Proforma Accounts and submit the same to Principal Accountant General (A&E). However, the position has not improved as compared to previous year.

3.5 Misappropriations, losses, etc.

There were 172 cases of misappropriation, losses, etc., involving Government money amounting to ₹ 12.62 crore as at the end of 2010-11 on which final action was pending. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.5** and nature of these cases is given in **Appendix 3.6**. The age-profile of the pending cases with the number of cases pending in each category of theft and misappropriation is given in **Table 3.2**.

Table 3.2: Profile of pending cases of misappropriations and theft

(₹ in crore)

Age-profile of the pending cases			Nature of the cases	Number of cases	Amount involved
Range in years	Number of cases	Amount involved			
Above 25	52	0.24	Theft	29	0.15
21 - 25	8	0.06			
16 - 20	34	0.60			
11 - 15	51	2.84	Misappropriation	143	12.47
06 - 10	13	1.03			
0 - 05	14	7.85			
Total	172	12.62	Total	172	12.62

Around 91 *per cent* of the amount involved pertained to departments of Forests, Ecology and Environment (₹ 3.73 crore), Water Resources (₹ 6.96 crore) and Public Works (₹ 0.78 crore).

3.6 Non- receipt of stores and stock accounts

The annual accounts of stores and stock are required to be furnished by various departments to Audit by 15 June of the following year. The half yearly accounts of Public Works, Water Resources and Minor Irrigation Departments are due to be received by 15 December of the year and 15 June of the following year. Delay in receipt of stores and stock accounts have been commented upon in successive audit reports. The Public Accounts Committee in its first report (sixth Assembly) presented in February 1980 had also emphasised the importance of timely submission of accounts by the departments.

The position of arrears relating to submission of stores and stock accounts by 11 departments involving 95 offices as of September 2011 are indicated in **Appendix 3.7**.

3.7 Unadjusted Abstract Contingent bills

Under rule 36 of the Government of Karnataka, Manual of Contingent Expenditure 1958, the Controlling and Disbursing Officers are authorized to draw sums of money by preparing AC bills by debiting service heads, and they are required to present detailed contingent bills (vouchers in support of final expenditure) to the Principal Accountant General (A&E) through treasuries. Detailed bills aggregating to ₹ 171.13 crore drawn on 18,485 AC bills were pending as at the end of March 2011 as detailed in **Table 3.3**.

Table 3.3: Pending Abstract Contingent bills

(₹ in crore)

Year	Abstract Contingent bills drawn		Detailed Contingent bills rendered		Outstanding bills	
	No. of Bills	Amount	No. of bills	Amount	No.	Amount
Up to March 2008	11,931	61.62	4,851	25.24	7,080	36.38
2008-09	7,262	69.25	5,497	50.26	1,765	18.99
2009-10	9,348	93.51	6,894	68.36	2,454	25.15
2010-11	9,918	1,03.42	2,732	12.81	7,186	90.61
Total					18,485	171.13

Source: PAG (A & E)

On this being pointed out repeatedly in the Audit Reports, instructions were issued (June 2010) to all Principal Secretaries / Secretaries of the Government to submit Non detailed contingent bills. However, the position has not improved as the numbers of bills outstanding as also the amount involved have increased considerably.

3.8 Personal Deposit Accounts

The Karnataka Financial Code provides for opening of Personal Deposit (PD) accounts with permission from Government in cases where the ordinary system of accounting is not suitable for transactions. PD accounts created by debit to the Consolidated Fund of the State should be closed at the end of the financial year. Administrators of the accounts should intimate the Treasury Officer the balance to be transferred to the Consolidated Fund. For continuation of PD accounts beyond the period of its currency, administrators are required to seek the permission of the Finance Department. Periodical reconciliation of PD accounts with treasury accounts is the responsibility of the administrators concerned.

3.8.1 Funds kept in PD Accounts

Transfer to Personal Deposit Account is booked as expenditure in the Consolidated Fund (service Major Heads) of the State. During 2010-11, an amount of ₹ 2,201.06 crore has been transferred to PD accounts. While Government is authorized to open PD accounts in order to deposit money for specific purposes, the administrators are required to close such accounts on the last working day of the year and transfer the unspent balances back to the Government Account (Consolidated Fund). The aggregate amount of the unspent balances in the accounts of the administrators for the period 2007-11 as indicated in **Table 3.4**.

Table 3.4: Funds in PD accounts

Year	Opening balance	Receipts/Deposits	Withdrawals	(₹ in crore)
				Closing balance
2007-08	754.94	1,381.60	1,445.25	691.29
2008-09	691.29	1,593.31	1,438.29	846.31
2009-10	846.31	3,491.10	3,123.18	1,214.23
2010-11	1,214.23	2,201.06	1,942.39	1,472.90

Source: Finance Accounts

The number of operative / inoperative PD accounts is indicated in the **Table 3.5** and the details of adverse balances thereof are in **Appendix 3.8**.

Table 3.5: Operative / In-operative PD accounts

Particulars	Personal Deposit Accounts			
	Credit		Debit	
	No. of Accounts	Amount	No. of Accounts	Amount
Operative PD Accounts	24	1,441.92	5	4.86
In-Operative PD Accounts	21	70.63	11	11.21

Source: PAG (A E)

As could be seen from the table, debit balances totalling ₹ 4.86 crore appear in respect of five administrators (operative PD Accounts) and ₹ 11.21 crore in respect of 11 administrators (in-operative PD Accounts), indicating adverse balances in the accounts, which need to be reconciled.

It was also observed in Audit that out of 30 Deputy Commissioners (DCs) who are responsible for handling the money placed at their disposal for carrying out relief on account of natural disasters, five DCs had with them a balance of ₹ 8.63 crore at the end of the financial year 2010-11 and 21 DCs had with them a balance of ₹ 126.52 crore at the end of the financial year 2009-10. However, the transactions relating to the disaster fund account included under Reserve Funds did not include these balances.

From the information made available to Audit, it was noticed that a sum of ₹ 7.67 crore drawn for implementation of various schemes, remained in the PD account of the Commissioner of the Social Welfare Department as indicated in **Table 3.6** :

Table 3.6: Scheme Funds parked in Deposit Accounts

Head of Account	Scheme	Amount drawn	Amount utilised	Amount parked in PD account	Remarks
2225-01-277-0-63	Construction of Matric/ Post Matric Hostels	2.00	---	1.50	The scheme was not implemented. Out of the amount drawn, ₹ 0.50 crore was re-appropriated to other heads.
2225-01-102-0-08	Nursing and Skill Development	13.00	9.49	3.51	The amount was parked in the Dr. B.R. Ambedkar Memorial Trust.
2225-01-102-0-08	Financial Assistance to Atrocity victims	26.25	23.59	2.66	The amount utilized includes ₹ 21.25 crore diverted for purchase of land.
Total		41.25	33.08	7.67	

In response to the observations of Audit for the year 2009-10 with regard to the trend of increase in the closing balances in the PD accounts, State Government replied that it was primarily on account of various Government schemes, for which DC were the implementing authorities. Of late, the funds pertaining to MP & MLA LAD schemes were being transferred to PD accounts of the DC resulting in a major increase in the balances. However, the accounts of certain PDs which are opened during the course of the year are required to be closed before the closure of accounts of the year in order to give the correct position of disbursements under the Consolidated Fund during that year.

3.9 Reconciliation of expenditure and receipts

To enable the controlling officers to exercise effective control over expenditure, to keep it within the budget grants and to ensure accuracy of their accounts, expenditure recorded in their books have to be reconciled by them every month during the financial year with that recorded in the books of the Accountant General (Accounts and Entitlement).

Eventhough, non-reconciliation of departmental figures has been pointed out regularly in Audit Reports, lapses on the part of Chief Controlling Officers (CCOs) in this regard, continued to persist during 2010-11 also. Out of 79 CCOs for Receipt Heads, 67 CCOs have reconciled fully, 1 CCO has reconciled partially and 11 CCOs have not reconciled at all. Out of 194 CCOs for Expenditure Heads, 165 CCOs have reconciled fully, 3 CCOs have reconciled partially and 26 CCOs have not reconciled at all. Thus, reconciliation has been completed in respect of 86.45 *per cent* of CCOs.

The quantum of expenditure reconciled was ₹ 45,201.77 crore against the total expenditure (Revenue and Capital) of ₹ 67,389.01 crore, which works out to 67.08 *per cent*. The major amounts that were not reconciled fall under Major Heads '2202 General Education', '2071 Pensions and Other Retirement Benefits', '3604 Compensation and Assignments to Local Bodies and Panchayati Raj Institutions', '2225 Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes', '2515 Other Rural Development Programmes', '5054 Capital Outlay on Roads and Bridges' '2210 Medical and Public Health', '2236 Nutrition', '2217 Urban Development', '4215 Capital Outlay on Water Supply and Sanitation' '2235 Social Security and Welfare'.

On the receipt side, the amount reconciled was for a value of ₹ 57,229.97 crore against the total Receipts (Revenue and Capital) of ₹ 58,278.04 crore which works out to 98.20 *per cent*.

In respect of Loans and Advances, the reconciliation was not carried out by any of the CCOs concerned.

In response to the observations of Audit for the year 2009-10, instructions were issued to all the Principal Secretaries / Secretaries to direct the CCOs under them to complete the process of reconciliation by due date, so that the final accounts tallied with the accounts of Principal Accountant General (A&E) figures.

3.10 Bookings under Minor Head 800 – Other Receipts and Other Expenditure

An amount of ₹ 9,767.88 crore constituting about 14.13 *per cent* of the total expenditure (Revenue, Capital and Loan) was classified under the Minor Head '800 – Other Expenditure' under the respective Major Heads of Account. Several Schemes/Programmes/Activities such as, equities and investment in companies, rural roads and road works, sewerage and sanitation schemes, Suvarna Grama, Rashtriya Krishi Vikas Yojana, Accelerated Irrigation Benefit Programme, etc., had huge bookings under minor head '800'. These schemes/projects were not depicted distinctly in the Finance Accounts, though the details of these expenditures were depicted at the sub-head (scheme) level or below in the Detailed Demands for Grants and corresponding head-wise Appropriation Accounts forming part of the State Government Accounts.

Similarly, on the receipts side, ₹ 3,479.87 crore constituting about 5.95 *per cent* of the total receipts (Revenue, Capital and Loan) was classified under the Minor Head '800 - Other Receipts' under the respective Major Heads of Account. Several receipts such as Special Problem Grants (compensation for loss suffered by the State on account of phasing out of the Central Sales Tax and on account of introduction of VAT) had huge receipts booked under the Minor Head '800'. These receipts were not depicted distinctly in the Finance Accounts, though the details of these receipts were depicted at the sub-head (scheme) level or below.

It was replied by the State Government (November 2011) that the representatives of Finance Department, Principal Accountant General (A&E) and Treasuries have analysed fully the items classified under 'other receipts' and 'other expenditure'. It was observed by the Committee that some of the items do not fall under any of the existing minor heads below the major heads necessitating the classification under omnibus minor head '800 - Other Receipts and Other Expenditure'. Such items have been referred to the Controller General of Accounts for clarification.

3.11 Comments on Accounts

3.11.1 Transparency in accounts

To bring out greater transparency and to enable informed decision making in Government Accounts, the Twelfth Finance Commission (TFC) had recommended inclusion of certain statements/appendices in the Finance Accounts which would give details of subsidies given, both explicit and implicit, expenditure on salaries by various departments / units, detailed expenditure on pensioners and expenditure on Government pensions, data on committed liabilities in the future, information on debt and other liabilities as well as repayment schedule, accretion to or erosion in financial assets held by the Government including those arising out of changes in the manner of spending by the Government, implications of major policy decisions taken by the Government during the year or new schemes proposed in the budget for future cash flows and maintenance expenditure with segregation of salary and non-salary portions.

Presently, details of salary in respect of State sector only is captured in accounts and those regarding the District sector is included under the grants released to PRI institutions. The appendix on maintenance expenditure does not give data on salary expenditure. The appendix on subsidy does not provide information regarding implicit subsidies. Accounting reforms are required to be undertaken to bring the data available into accounts to make the accounts more transparent. The State Government in its reply (November 2011) stated that Zilla Panchayats(ZPs)/ Taluk Panchayats prefer salary bills on pink and yellow color bills respectively and are accounted by Chief Accounts Officer of the Zilla Panchayat for each ZP. There are about 30 ZPs in the State and there is no mechanism at present for consolidation of accounts of all the 30 ZPs. It has therefore become difficult to furnish the salary details of district sector accounts. However, the PAC in its report has recommended the Finance Department to depict salaries in total, taking into account the district sector also, if possible by opening a separate sub-head to capture the data.

The State Government further replied that the maintenance expenditure is split into work charged establishment and maintenance expenditure at sub head level in the List of Major and Minor Heads of Accounts. Efforts will be made to provide estimates separately either at sub head level or object head level from 2012-13 Budget estimate.

3.11.2 Important factors affecting accuracy of accounts

The accuracy of the State Finance Accounts 2010-11 has been adversely affected by factors like (i) large number of transactions under suspense heads awaiting final classification and (ii) increasing number and magnitude of adverse balances under Debt, Deposit and Remittances (DDR) heads. A general review of the transactions revealed the following:

a) Outstanding balances under major suspense accounts

Certain intermediary/adjusting heads of accounts known as 'Suspense heads' are operated in Government accounts to reflect transactions of receipts and payments which cannot be booked to a final head of account due to lack of information as to their nature or for other reasons. These heads of accounts are finally cleared by minus debit or minus credit when the amounts under them are booked to their respective final heads of accounts. If these amounts remain uncleared, the balances under the suspense heads would accumulate and would not reflect Government's receipts and expenditure accurately. The balances under certain major suspense heads of accounts, as recorded in the ledger maintained by Pr. AG (A&E), are indicated in **Table 3.7**.

Table 3.7: Suspense Head (8658 – Suspense Accounts)

Name of Minor Head	(₹ in crore)					
	2008-09		2009-10		2010-11	
	Dr	Cr	Dr	Cr	Dr	Cr
101 – Pay and Accounts Office Suspense	65.18	18.32	75.84	18.27	60.49	0.05
Net	Dr. 46.86		Dr. 57.57		Dr. 60.44	
102 – Suspense Account (Civil)	28.98	12.78	29.21	11.23	25.24	6.86
Net	Dr. 16.20		Dr. 17.98		Dr. 18.38	
110 – R B Suspense – Central Accounts Office	39.13	88.08	33.17	107.34	59.24	99.82
Net	Cr. 48.95		Cr. 74.17		Cr. 40.58	

The Finance Accounts reflect the net balances under these heads. The outstanding balances are worked out by aggregating the outstanding debit and credit separately. The implications of the balances under these heads are discussed in the succeeding paragraphs.

❖ ***Pay and Accounts Office (PAO) Suspense***

This minor head is operated for the settlement of inter-departmental and intergovernmental transactions arising in the books of PAOs and the Accountant General. Transactions under this minor head represent either recoveries effected or payments made by an Accounts Officer on behalf of another Accounts Officer, against whom the minor head PAO Suspense has been operated. Credit under the head is cleared by 'minus credit' when cheque is issued by the Accounts Officer in whose books initial recovery was accounted for. Debit under 'PAO Suspense' is cleared by 'minus debit' on receipt and realisation of cheque from the Accounts Officer on whose behalf payment was made. Outstanding debit balance under this head would mean that payments have been made by the Accountant General on behalf of a PAO, which are yet to be recovered. Outstanding credit balance would mean that payments have been received by the Accountant General on behalf of a PAO, which are yet to be paid. The net debit balance under this head has been showing an increasing trend.

❖ ***Suspense Account (Civil)***

This transitory minor head is operated for accounting of the transactions, which for want of certain information/documents viz., vouchers, challans etc., cannot be taken to the final head of expenditure or receipt. This minor head is credited for recording receipts and debited for expenditure incurred. On receipt of the requisite information/documents etc., the minor head is cleared by minus debit or minus credit by per contra debit or credit to the concerned major/sub-major/minor heads of accounts. Outstanding debit balance under this head would mean payments were made which could not be debited to final expenditure head for want of details like vouchers etc. Outstanding credit balance would mean amounts were received which could not be credited to the final receipt head for want of details. The net debit balances under this head has been showing an increasing trend.

❖ ***Reserve Bank Suspense, Central Accounts Office***

This minor head is operated in the books of State Government for repayment of loans and payment of interest in respect of Central Loans received by the Government. At the time of repayment of loan and payment of interest thereon by the State Government this head is debited by crediting the loans/interest head. On receipt of monthly statement of accounts from RBI (CAS), Nagpur the head is minus debited by per contra debit to 8675-Deposits with RBI-101-Central Civil. The credit balance under this head has come down during 2010-11, compared to 2009-10.

b) Adverse balances under DDR eads

Adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced. As revealed by Finance Accounts for the year 2010-11, adverse balances under E-Public Debt amounted to ₹ 84.89 crore, while under F-Loans and Advances it was ₹ 62.27 crore and under Public Account ₹ 14.82 crore (debit) and ₹ 0.26 crore (credit).

3.12 Conclusion

The Departmental compliance towards disposal of cases of losses, misappropriations, etc. was deficient. Detailed bills against abstract bills were wanting since long and large sums of money were being retained in PD Accounts against the principle of Legislative financial control. Non-reconciliation of expenditure and receipts was to the extent of 14 *per cent* of total expenditure and two *per cent* of total receipts respectively. There were adverse balances under certain DDR heads which required remedial action for their clearance. Transparency in accounts is required to indicate important details like salary (PR Institutions), maintenance etc., as recommended by the Finance Commission.

3.13 Recommendations

Departmental enquiries in all the cases of misappropriations, losses, defalcations, etc., should be expedited to bring the defaulters to book. For this purpose, the internal controls in various departments should be strengthened to prevent recurrence of such cases. Accounting reforms are required to capture data as recommended by the Finance Commission. Review of deposit accounts is required to be taken to weed out all in-operative/operative heads which have outlived their utility. Review of suspense heads needs to be done to bring the transactions to the final heads in the accounting year itself.

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